

THE ROLE OF THE FINANCIAL EXPERT IN ESTABLISHING A CONDOMINIUM OWNERS' ASSOCIATION

Serving as a financial consultant to a condominium Owners' Association is a new activity in Romania. The prospective practitioner should have at least three (3) years' experience in a financial/accounting position, if possible as a certified accountant.

The Condominium Operations and Management Training Manual for use by Owners' Associations is a useful reference for analysis and management of financial and accounting records or the development of an annual operating budget and renovation fund.

Preliminary Financial Analysis

At a general assembly of the Owners' Association, the owners should elect a treasurer or Account Audit Committee to work with the financial experts. These person should have financial or accounting expertise, or experience in the financial operations of a small business or enterprise. They will participate in the initial financial analysis of the accounts, assets and liabilities, and balance sheet of the Tenants' Association of which the building is a part.

The financial representatives of the Owners' Association will verify the truth and accuracy of the account balances on the balance sheet of the Tenants' Association in the presence of the auditors or accountant of the Tenants' Association.

Verification of records must be done in accordance with the provisions of Accounting Law No. 82/1991 and Government Decision 704/14th, dated December 1993. The Accounting Law was published in the Official Monitor No. 265, part 1, December 27, 1991. The provisions of Decree 209/1976 regarding the Rules for Cashiering Operations, Law 22/1969 and the Decision of the Council of Ministers 2230/1969 regarding tenant administrations and administrators must also be applied.

After the verification is complete, the financial representatives of the Owners' Association and the Tenants' Association should prepare and sign "minutes," or a written record, of the findings. This document certifies that the final account balances have been accepted and will be the starting point for the determination of the assets and liabilities of the new Owners' Association.

Resolving Disputes in Verification of the Tenants' Association Records

It is possible for disagreement to occur during the process of verifying the accounting records of the Tenants' Association. In order not to lose time, these should be brought to the attention of the chairman of the Tenants' Association and of the Owners' Association, who together can establish a means of solving any disputes on an amicable basis.

Separation of the Property

Once the financial records of the Tenants' Association are certified, the Owners' Association can be severed from the Tenants' Association. This separation is executed on the basis of a protocol (a model for which appears at the end of this handbook), supported by 4 annexes:

- a) the status of goods and inventory handed over and received;
- b) the status of debt owed or credits due the Owners' Association;
- c) the status of reserve funds belonging to the condominium owners;
- d) the status of final adjustments which must be made between the respective parties.

Copies should be retained by the Owners' Association and the Tenants' Association, as well as the financial expert, Auditing Committee, treasurer, or others involved in the verification.

If there are any employees of the Tenants' Association that will become employees of the Owners' Association, their up-to-date employment records should be transferred to the owners' Association, together with records relating to loans, credits, housing, debits, and so on, of the employee.

Even if the old Tenants' Association and the new Owners' Association have the same members, it is important to follow the separation procedures described above. Of course, in this case, the process will go faster and the budget will be easier to prepare, because the historical data relates exclusively to the same property and residents. But the Owners' Association must have a legal identity of its own, so the financial verifications are a necessary and important first step.

What To Do if the Tenants' Association Records are Incomplete

One common difficulty in separating the property is the fact that not all Tenants' Associations use double entry accounting. As a result, the record books do not have verifiable balances. Sometimes there is no evidence linking payments to specific time periods, making proration difficult.

In such a situation, verification balances should be computed on the basis of the existing records, recreating the balance sheet as of the time of separation. Missing documents can be prepared in accordance with the applicable laws.

Opening an Owners' Association Bank Account

When the chairman of the Owners' Association has received the court order approving registration of the Association, the Association, should open a commercial bank account. This is done on the basis of the following documents:

- a) authenticated copy of the court order approving registration of the Association;
- b) application to open the account;
- c) signatures of the persons authorized by the Association to handle its funds, imprinted with the seal of the association.

Valuation of the Property of the Owners' Association

The valuation of the property of the Owners' Association should be performed by professional, authorized appraisers, and should take place at the same time the financial and accounting evaluation and verification is done.

In the technical book of the building, the technical expert should have provided much of the information necessary to develop a first-year operating budget for the Owners' Association. The technical book should now describe for the first time the condition of the installations, their efficiency, and their operating parameters, all of which provide the basis upon which to estimate costs for the first-year budget. The valuation records needed to establish the present value of the property should be registered in the Association Agreement. The accountant must consult both the technical book and the valuation report for information relevant to development of the budget.

Making the Financial Evaluation of the Association

The information in the annexes to the protocol and in the technical book form the basis for determining the future expenditures of the Owners' Association. This information is static, however, so it is necessary to perform a historical analysis of

expenses incurred during the prior fiscal year and how they were funded from income. Care should be taken to eliminate any expenses or income from prior years. Similarly, one time or nonrecurring expenses or income should be identified as such.

When projecting expenditures by category, it is important to take into account anticipated changes in regulated prices. Consideration must also be given to free market effects on unregulated prices. Inflation and government announcements regarding pricing must both be considered.

Funding the Budget for the First Year

Calculation of projected ordinary or operating expenses gives a partial picture of the amount of money that must be collected in income. In addition, revenue must be put into a reserve or renovation fund for larger future expenses.

The technical book will help identify the priority needs for capital repairs and renovations, which will most certainly exceed the available capital. In this event, the Association leadership must establish the level of funding for capital repairs and replacements to be included in the budget.

Total of expenditures should equal income. The basic principle to follow in drafting the budget should be: "maximum expenses, minimum income." At least two alternative drafts of the budget should be prepared. These are submitted to the general assembly with notes describing how they were formulated, for the vote of the owners.

Modifying the Budget

After the owners' adopt a budget, it can only be adjusted by submitting proposed modifications to the owners at a general assembly.

Financial Recordkeeping

Initial account balances for assets and liabilities are taken from the annexes of the protocol. The forms to be used for maintaining financial records after that are including in the Condominium Operations and Management Training Manual. Other documents required by the Accounting Law, such as checks, invoices, inventories, cash registers, etc. are prepared as the need or activity dictates. Only the documents required as a standard form under Decree No. 10/1986, and those included in the manual, should be used.

Other Necessary Steps

An important area of concern is the completion of contracts with the suppliers of heat, water, energy gas, trash removal, and other services, which will document the rights and responsibilities of the parties. Metering of heat, water, and energy is very important, and will represent an important source of savings for the Association.

Another potential money-saver is the use of a computer for processing financial data. It is advisable to take on this task after a vote by the members of the association. Careful management will help solve many problems even if financial resources are limited in the first year of activity.

by
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